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NATIONAL INTELLIGENCE DAILY CABLE

Friday 30 June 1978

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Friday, 30 June 1978.

The NID Cable is for the purpose of informing senior US officials.

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ETHIOPIA: Seminar on Eritrea

The offer yesterday of the two main Eritrean guerilla groups--the Eritrean Liberation Front and the Eritrean People's Liberation Front--to begin direct and unconditional peace talks with Ethiopia is an apparent effort to upstage the Ethiopian Government, which has just concluded an 11-day seminar to drum up mass support for its policy of military confrontation in Eritrea. The insurgents' proposal, unveiled at a joint press conference in Beirut, reiterated their longstanding position that any settlement of the 17-year-old conflict must be based on self-determination for the Eritreans. The Mengistu regime has steadfastly rejected this and appears firmly resolved to pursue the military option in Eritrea.

The guerrillas are trying to capitalize on widespread international opposition to an Ethiopian offensive in Eritrea, as well as almost certainly to undermine Ethiopian efforts to place blame for the lack of negotiations squarely on the Eritreans. In a seminar session last week, Lt. Col. Berhanu Bayeh, the ruling council member responsible for foreign affairs, publicly disclosed a series of contacts between the government and the EPLF, including several recent meetings in East Berlin. These talks failed, according to Berhanu, because of the guerrillas' unreasonable demands for complete independence.

The 800 to 1,000 delegates to the government's seminar included representatives of many sectors of Ethiopian political, diplomatic, and bureaucratic life. By associating these leaders directly with its efforts in Eritrea, the Mengistu regime clearly hoped to mobilize public opinion and to avoid internal opposition if the planned military drive in Eritrea goes badly.

25X1 [] The seminar seems to have reaffirmed the Mengistu regime's determination to forgo compromise in favor of a full-scale military effort. The participants repeatedly emphasized that there is no common ground on which to negotiate with the guerrillas, and stressed the ruling military council's theme that the guerrillas are reactionaries seeking to oppress the Eritrean people. Government spokesmen, by arguing that the guerrilla groups are not legitimate representatives of the Eritrean population, attempted to justify the regime's refusal to negotiate, as well as the need to wage a "war of national liberation" against the insurgents.

25X1 [] Seminar speakers strongly rejected the idea that, although the council and many guerrilla leaders are Marxists, this provides the basis for a peaceful solution to the conflict. The most strident criticism, in fact, was of the Marxist-oriented EPLF, whose leaders were labeled false Marxists employing socialist rhetoric to mask their reactionary aims.

25X1 [] The government emphasized ideological justification for its policy toward Eritrea in order to appeal to Communist countries and to make it more difficult for the Soviets and the Cubans to withhold support--particularly if the Ethiopian offensive in Eritrea falters. It was also an implicit rebuke to the Soviet concept of a federation of Ethiopia, Eritrea, Somalia, and Djibouti. By attempting to discredit the rebels' Marxist credentials, the Ethiopians probably also hoped to undercut some of the ideological rationale behind radical Arab support for the Eritreans and to portray any such support as reactionary. []

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LEBANON: Internal Feuding

[redacted] The massacre of Phalangists in northern Lebanon on Wednesday was probably the opening round in ex-President Sulayman Franjiyah's attempt to avenge the murder of his son, Tony. Although evidence is scanty, the circumstances suggest that Syrian President Assad's brother Rifaat, a close friend of Tony Franjiyah, had a hand in the operation. The incident will provoke others, and could well spill over into violence in Beirut--perhaps in the form of a clash between Phalangist fighters and Syrian "peacekeeping" forces.

[redacted] A large-scale raid was carried out before dawn on Wednesday against five predominantly Greek Catholic villages in the northern Bekaa Valley. About 40 men were abducted; some

were released, but at least 22 were killed. [REDACTED]

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[REDACTED] The Phalangist militias led by Bashir Jumayyil are almost certain to react violently. Although those responsible have not been firmly identified, the suspicion of Syrian complicity is widespread, making Syrian troops prime targets. Syrian-Christian clashes in February and May were bloody and hard to bring under control, resulting in heavy Syrian casualties and building up a backlog of scores to settle on both sides. The situation is particularly volatile because the only troops available to contain such clashes are Syrian, and their intervention is as likely to aggravate as it is to calm.

[REDACTED] The cycle of violence and revenge that has become established in Lebanon over the past few months is also highlighting the impotence of the Sarkis government, which has been keeping such troops as it possesses on the sidelines. Since many are supporters of the Phalanges, they could hardly be expected to play a constructive role in any case. Rival Christian factions, which are engaging in a gangland-style struggle for power and money, have had few restraints on their escalating activities.

[REDACTED] Earlier reporting had indicated that Syrian President Assad intended to try to steer clear of involvement in any revenge for the Franjiyah murder, but that Rifaat Assad had other ideas. Any Syrian participation in the latest incident may well have been Rifaat acting on his own, and cooler heads may still do what they can to keep the Syrians from becoming further embroiled. The leadership may not succeed, however, particularly if the Syrians find themselves the targets of concerted Phalangist attacks. [REDACTED]

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USSR-CHINA: Border Talks

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[redacted] The recent round of Chinese-Soviet border talks ended yesterday with the departure from Peking of Deputy Foreign Minister Ilichev, the chief Soviet negotiator. Propaganda exchanges over the border dispute began to intensify even before Ilichev arrived in Peking in late April, and a high-ranking official in Moscow has characterized Ilichev's latest mission as "useless."

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[redacted] The Chinese rejected a Soviet proposal made in late February to normalize state relations and accused the Soviets of failing to honor a September 1969 understanding on maintaining the status quo on the border and withdrawing troops from disputed areas before beginning serious negotiations. The USSR denied that any such understanding had ever been reached and continued to attack China's intransigent position on a boundary settlement.

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[redacted] Last month, the Chinese accused the Soviets of deliberately provoking a border incident when a contingent of naval border guards entered Chinese territory and allegedly fired on local inhabitants. China dismissed Soviet expressions of regret over the incursion and briefly exploited it for propaganda purposes. [redacted]

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NAMIBIA: Response to Demarche

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[redacted] The South African Government on Wednesday rebuffed a move by the Western sponsors of a Namibian settlement to resolve the principal substantive issue--where the South African residual force will be situated during the transition period. Nevertheless, the detailed position paper that Foreign Minister Botha submitted to the Western envoys appears designed to keep the door open for a negotiated settlement.

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[redacted] The South Africans acted in response to a Western demarche last week that was intended to bridge the gap between the Western settlement plan that Pretoria accepted in April and the latest negotiating position of the South-West Africa People's Organization. According to Tanzanian President Nyerere, when the SWAPO leaders met with the frontline presidents in

Luanda in mid-June, they agreed to accept the Western settlement plan with one revision. The SWAPO leaders insisted that the Western stipulation that the South African residual force be restricted to "Grootfontein or Oshavello or both" be revised to "one or two locations south of Windhoek."

25X1 [] Last week the Western envoys proposed, as a possible compromise, that the residual force be restricted solely to Grootfontein. This is presumably less objectionable to SWAPO because it is farther than Oshavello from SWAPO's primary guerrilla bases in southern Angola.

25X1 [] The South African position paper argues that even such a minor revision in the Western plan is unacceptable because Prime Minister Vorster, when he announced acceptance of the Western plan, assured Parliament that its terms are final and definitive. Also, Foreign Minister Botha told the Western envoys that a residual base at Oshavello is essential in order to assure a quick response to any emergency in Ovamboland; the Ovambos are by far the largest ethnic group in Namibia.

25X1 [] The position paper also spells out the government's justification for a preemptive strike against SWAPO bases in Angola in May, for arresting SWAPO leaders inside Namibia who are suspected of inciting violence, and for going ahead with voter registration in the absence of a UN representative. South Africa argues it was essential to take these steps--despite Western warnings against such unilateral actions--in order to avert major disorders that would prevent a territory-wide election according to the Western plan. The paper appeals for an early presentation of the Western plan to the UN Security Council, but does not reassert earlier South African threats to conduct an election unilaterally if this is not done. []

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WEST GERMANY: May Propose Tax Cut

25X1 [] *Political difficulties in West Germany may prevent early formulation of the tax cut package that Bonn now says it may adopt. West German Economics Minister Lambsdorff recently stated that Bonn would consider a tax cut of about \$6 billion in return for US energy conservation measures, more trade concessions from Japan, and curbs on protectionist measures by Britain and France.*

25X1 [] Lambsdorff did not indicate what taxes would be cut. Although this question, along with the date of implementation, remains to be resolved, tax cut legislation presumably could be made retroactive.

25X1 [] Steering such legislation through the coalition partners--the Social Democratic and Free Democratic Parties--and then through the opposition-controlled Bundesrat is likely to take some time. When parliament reconvenes on 18 September, left-wing Social Democrats are likely to hold out against business tax cuts and reductions in taxes on middle and upper income groups. The Free Democrats and the opposition Christian Democratic Union and Christian Social Union will, however, push for the cuts.

25X1 [] Lambsdorff, a member of the free Democratic Party, will argue for an early tax cut in an effort to bolster his party's chances in coming state and national elections. The party failed to gain the five percent of total votes required for parliamentary representation in the recent Hamburg and Lower Saxony elections and could well be fighting for its life. Lambsdorff wants to accentuate the clear-cut differences between his party and the Social Democrats on the tax issue. Free Democratic leaders may also hope that advocacy of early tax reform will head off the formation of a "tax-protest" movement that could draw further votes from its dwindling constituency.

25X1 [] The October state elections in Hesse, which may decide the fate of the Bonn coalition, thus add some sense of urgency to the tax cut negotiations. A victory there by the Christian parties could give the opposition parties the two-thirds majority in the Bundesrat necessary to block most federal legislation. []

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INDIA: Home Minister Fired

25X1 [] *Indian Prime Minister Desai's dismissal yesterday of Home Minister Charan Singh indicates both a new unity among the remaining factions of the ruling Janata Party and a new decisiveness on the part of Desai. It remains unclear, however, whether Singh retains enough support in his own faction to topple Desai's government.*

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[] In a surprise move, Desai requested the resignations of both Singh, the second most important man in the cabinet and an important leader of the ruling Janata Party, and Singh's close associate, Health Minister Raj Narain. The cabinet gave Desai absolute discretion to fire both men.

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[] Singh, despite his slow recuperation from a heart attack in April, has been publicly challenging the other leaders in the Janata Party. Through his mouthpiece Raj Narain, who brought the suit against Prime Minister Gandhi that ultimately resulted in her imposing emergency rule, Singh has called for the resignation of party president Chandra Shekhar and the reorganization of Janata's executive bodies. Singh has also criticized the government for its cautious approach in prosecuting Gandhi. Both men persisted in these attacks despite explicit instructions from the Prime Minister and the cabinet not to do so.

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[] The situation came to a head when Desai returned from his trip to the US and openly rebuked Narain. When compromise failed, the cabinet called a special session, and leaders of all the Janata factions unanimously backed Desai.

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[] The cabinet vote represented a shift in intraparty alliances. Previously, the Jana Sangh, the best organized faction within Janata, had entered into local alliances with Charan Singh's supporters in the northern Indian states. With the expulsion of Singh from the cabinet, the Jana Sangh seems to have lined up firmly with Desai. The US Embassy in New Delhi believes Singh has very few firm supporters, and the government may continue in power with a secure parliamentary majority. []

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URUGUAY: Military Purge

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[] The Army, which has controlled Uruguay since 1973, has long been split over the issue of political liberalization--even though it has tried to maintain a public appearance of unity. This internal strife has thwarted all efforts to make preparations for the election scheduled for 1981.

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[] Early this year, Alvarez promised to take steps toward an election and to foster "economic well-being, authentic democratic institutions, and unrestricted enjoyment of individual rights." His efforts have been stymied, however, by strong opposition among conservatives in the military. For the past several months, Alvarez has been the target of a smear campaign that has accused him, among other things, of being a tool of the US Embassy.

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[] Alvarez is scheduled to retire next February and, although he insists he will exercise his full authority until then, the other generals could increasingly treat him as a "lame duck." []

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BRAZIL: Drought Slashes Output

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[] Southern Brazil's worst drought on record has reduced production of several major crops by more than 15 percent this year. We expect that Brazil--the world's third largest agricultural exporter--will lose \$1.2 billion in exports this year and that imports of food products will increase by \$400 million. Brazil should nevertheless be able to avoid serious balance-of-payments problems.

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[] The drought that has plagued south-central Brazil since late 1977 has cut production of most major grain crops as well as cotton and coffee. Soybean production has fallen 22 percent this year, and corn production is estimated at 14.1 million tons--down from 18.8 million tons in 1977. We also expect cotton production to decline 16 percent and rice an estimated 6 percent from the 1977 levels. Coffee production will probably be slightly higher than a year ago, but down from earlier estimates.

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[] Despite recent rainfall, wheat planting for next year's crop has lagged badly. Next year's coffee production, which should have recovered fully from the 1975 frost, may suffer another setback if drought damage to younger trees is severe.

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[] The number of cattle, which we had expected to increase due to higher prices, is now likely to decline as a result of reduced capacity of dry pasturelands. An outbreak of African swine fever has already spread from the state of Rio de Janeiro to the south, where the bulk of Brazil's 40 million swine herd is located.

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[] Losses in agricultural revenues coupled with increased food imports will probably cost Brazil about \$1.9 billion in foreign exchange during the next 12 months. Earnings from agricultural exports in 1978 are expected to drop \$1.2 billion below the 1977 level, largely because of drought-related losses. Soya exports--bean, meal, and oil--will show the largest absolute decline.

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[] Brazilian imports of agricultural products will increase more than \$400 million in 1978 as a result of production losses. Wheat imports will increase by a million tons, while

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corn and beef, normally export items, will be imported in an effort to hold the line on prices and to meet domestic requirements.

25X1 [] In order to prevent a serious deterioration of its trade balance, Brazil has maintained tight import restrictions and encouraged exports of manufactured goods by continuing its massive subsidy program and accelerating the pace of cruzeiro devaluations. CIA estimates that, as a result of the effects of the drought on the trade balance, Brazil's current account deficit will increase slightly this year to about \$4.7 billion, compared to \$3.9 billion in 1977. Treasury, however, believes that the 1978 current account deficit is likely to be closer to \$5.2 billion.

25X1 [] Despite the agricultural losses, Brazil should be able to register around a 4-percent increase in real GDP this year, slightly below last year's performance. The continued growth in GDP reflects the resiliency of the economy, which should be able to rely on the manufacturing sector to supply the impetus to growth. The agricultural setbacks nonetheless spell trouble for Brazil's anti-inflation program; the government will probably be unable to hold inflation below last year's rate of 39 percent.

BRIEFS

USSR-Africa

25X1 [] One week after the harshly worded Soviet Government statement on Africa, President Brezhnev has reiterated Soviet criticism of Western involvement in Africa--particularly of NATO's interest in the creation of an inter-African military force. Speaking at a Moscow reception yesterday for Madagascar President Ratsiraka, Brezhnev charged that "no one had empowered" NATO to extend its "sphere of action" to Africa.

25X1 [] Last Friday, several Soviet officials in conversations with US Embassy officers also struck hard at the idea of an inter-African force and implied that Moscow was determined to continue its current policies in Africa.

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[] The Soviets are citing the inter-African plan in order to influence African opinion against the West, but it is also possible that Soviet leaders are concerned that the formation of any alliance on the continent will work against their long-term interests there. []

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Ethiopia-Somalia

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[] Ethiopian planes attacked Belet Wen in central Somalia yesterday--the third attack on Somalia in a week. The raids, which President Siad has protested to the Organization of African Unity, are in response to continuing Somali-backed insurgent activity in the Ogaden. []

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Sudan-IMF

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[] Sudan has complied with all the terms needed to obtain a \$63 million loan from the International Monetary Fund. The loan will help to finance Sudan's current-account deficit--estimated at \$300 million this year. It is seeking additional assistance from the wealthy Arab countries.

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[] The economic reform package implemented as a condition of the IMF loan includes a 20-percent devaluation and an austerity budget designed to reduce inflation. Sudan is also instituting agricultural reforms in order to aid exports and make Sudanese products--cotton and peanuts--more competitive on world markets. These measures will not have much effect for a few years, however, and until their impact is felt, Sudan will continue to require balance-of-payments assistance. []

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IMF

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[] Tomorrow, the International Monetary Fund will add the Iranian rial and the Saudi Arabian riyal to the basket of 16 major currencies that determine the value of the IMF's Special Drawing Right. OPEC currencies will thus be included for the first time. The Danish krone and the South African rand will be removed. The new valuation method will be in force until 30 June 1983.

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[] The SDR was created by the IMF in 1969 as a supplementary international reserve asset. Although the use of SDRs is limited to the IMF, its members, and such institutions as regional monetary authorities and the World Bank, the SDR is receiving increased attention in private financial circles as an accounting unit.

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[] Until mid-1974 the SDR was tied to the US dollar through its respective "gold content." Since then the IMF has defined the SDR's value in terms of 16 major currencies to permit the SDR to fluctuate in value against the dollar and other currencies, under the floating exchange rate regime that emerged in August 1971.

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[] The 16 currencies in the SDR basket are chosen on the basis of the importance of IMF member countries in world exports. Special weighting will continue to be given the US dollar.

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